

**UNITED STATES INTERNATIONAL TRADE COMMISSION**

**APPAREL INPUTS IN “SHORT SUPPLY”: VISCOSE RAYON YARNS**

Investigation No. 332-428-004

May 2001



# Apparel Inputs in “Short Supply”: Effect of Providing Preferential Treatment to Apparel Imported from Sub-Saharan African and Caribbean Basin Countries

**U.S. International Trade Commission Investigation No. 332-428-004**

<b>Products</b>	Knit apparel of viscose rayon yarns
<b>Requesting Party</b>	Fabritex, Inc., Lincolnton, NC
<b>Date of Commission Report: USTR PUBLIC</b>	April 27, 2001 May 2001
<b>Commission Contact</b>	Dave Michels (202-205-3352; dmichels@usitc.gov)

## **NOTICE**

**THIS REPORT IS A PUBLIC VERSION OF THE REPORT SUBMITTED TO THE PRESIDENT ON APRIL 27, 2001. ALL CONFIDENTIAL BUSINESS INFORMATION HAS BEEN REMOVED AND REPLACED WITH “\*\*\*.”**

## **Summary of Findings**

The Commission’s analysis shows that granting duty-free and quota-free treatment to knit apparel made in eligible Caribbean Basin countries from certain viscose rayon yarns, regardless of the source of the yarns, would likely have little adverse effect on U.S. producers of the yarns, U.S. apparel firms producing the apparel domestically, and their workers, but would likely benefit U.S. producers of fabrics made from the yarns, U.S. apparel firms assembling the apparel in the Caribbean Basin, and their U.S.-based workers. U.S. consumers would likely benefit from some of the duty savings resulting from the proposed preferential treatment.

## **Background**

On March 14, 2001, following receipt of a request from the United States Trade Representative (USTR), the Commission instituted investigation No. 332-428, *Apparel Inputs in “Short Supply”: Effect of Providing Preferential Treatment to Apparel from Sub-Saharan African and Caribbean Basin Countries*, under section 332(g) of the Tariff Act of 1930 (19 U.S.C. 1332(g)) to provide advice during 2001 in connection with petitions filed by interested parties under the “short supply” provisions of the African Growth and Opportunity Act (AGOA) and the United States-Caribbean Basin Trade Partnership Act (CBTPA).<sup>1</sup>

The Commission’s advice in this report concerns a petition received by the Committee for the Implementation of Textile Agreements (CITA) on March 12, 2001, alleging that certain viscose rayon yarns cannot be supplied by the domestic industry in commercial quantities in a timely manner and requesting that the President proclaim preferential treatment for apparel made in eligible CBTPA beneficiary countries from knitted fabrics produced in the United States of such yarns, regardless of the source of yarns. The President is required to submit a report to the House Ways and Means and Senate Finance Committees that sets forth the action proposed to be proclaimed, the reasons for such action,

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<sup>1</sup> For more information on the investigation, see the Commission’s notice of investigation published in the *Federal Register* of March 21, 2001 (66 F.R. 15886), as well as the special area on its internet site for the investigation ([www.usitc.gov/332s/shortsup/shortsupintro.htm](http://www.usitc.gov/332s/shortsup/shortsupintro.htm)).

and the advice obtained from the Commission and the appropriate advisory committee within 60 days after a request is received from an interested party.<sup>2</sup>

### **Brief discussion of products**

The rayon yarns named in the petition are classified in subheading 5510.11.00 of the Harmonized Tariff Schedule of the United States (HTS), which provides for single yarns (other than sewing thread), containing 85 percent or more by weight of artificial staple fibers, not put up for retail sale. The subject yarns are used in the manufacture of knitted fabrics for apparel classified in HTS chapter 61 (knitted or crocheted apparel). The principal knitted garments made from the subject yarns are women's higher-end fashion wear, such as tops (e.g., shirts), skirts, pants, and maternity wear, the rates of duty on which range from 6 percent to 28.7 percent ad valorem.

The yarns named in the petition are 30 singles (30/1) and 36 singles (36/1) solution-dyed, spun viscose rayon yarns.<sup>3</sup> The subject yarns tend to be finer than the more commonly available domestic or imported single rayon yarns, which typically have a yarn number of 16, 18, or 20. According to the petitioner, the subject yarns are distinctive because they are (1) solution dyed (i.e., the dyeing process occurs before spinning, while the yarn is still in fiber form); (2) extremely fine, while those made domestically are coarser; and (3) spun on open-end spindles, which results in a more uniform yarn.<sup>4</sup> The petitioner states that these high-quality yarns are used in the manufacture of specialty knitted fabrics, which exhibit exceptional "hand" and drape, and a silkiness and smoothness not found in other knitted fabrics, and for which there are no viable substitutes. The petitioner indicates that these fabrics also contain spandex, a synthetic elastic material similar to natural rubber.

All rayon is produced by the viscose process. In the viscose process, cellulosic materials such as wood chips, pulp, or cotton linters are dissolved in an alkaline solution. The solution is treated with a carbon disulfide to produce a solution of cellulose xanthate. This solution is then forced through tiny spinnerets in an acid bath to produce the essential rayon fiber. Solution-dyed fiber is produced by adding a dye as the rayon fiber is being forced through the spinnerets so that the fibers are colored as they are formed. Solution dyeing produces a rayon fiber that is much more colorfast than rayon dyed at a later stage of processing. The rayon fibers are cut into shorter length staple fiber used for spinning. Single yarns are spun after the rayon has been cut.

Although rayon fiber is produced in the United States, an industry source indicated that the expertise and equipment needed for solution dyeing currently does not exist in the United States and that it is not economically feasible to import the necessary expertise and equipment.<sup>5</sup> The petitioner stated that there are only a few yarn producers in Spain, France, and Germany that can provide the firm with the subject yarns.<sup>6</sup> The petitioner stated that it imports the subject yarns from Spain.<sup>7</sup>

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<sup>2</sup> In Executive Order No. 13191, the President delegated to CITA the authority to determine whether particular fabrics or yarns cannot be supplied by the domestic industry in commercial quantities in a timely manner. He authorized CITA and USTR to submit the required report to the Congress.

<sup>3</sup> The numbers 30/1 and 36/1 indicate the number of 840-yard lengths in a pound of yarn (30 or 36) and the number of plies (1, or single, ply). The higher the yarn number (e.g., 30 or 36), the finer the yarn.

<sup>4</sup> Brenda A. Jacobs and Leigh Fraiser, Powell, Goldstein, Frazer & Murphy LLP, Washington, DC, on behalf of Fabrictex Inc., written submission to the Commission, Apr. 13, 2001, p. 2.

<sup>5</sup> Dan Blair, Lenzing Fibers, Lowland, TN, telephone interview by Commission staff, Mar. 26, 2001.

<sup>6</sup> The general rate of duty on the subject yarns is 9.6 percent ad valorem. Additional duties also exist for certain single yarns from selected countries. Effective July 29, 1999, following completion of an investigation under section 301 of the Trade Act of 1974, the President created HTS subheading 9903.02.42, and imposed a 100 percent ad valorem duty on imports of single yarns, the product of France or the Federal Republic of Germany. This duty was one element of a broader action taken in response to the failure of the European Union to end its ban on the importation of U.S. meat from animals treated with certain hormones.

<sup>7</sup> Brenda A. Jacobs and Leigh Fraiser, on behalf of Fabrictex, Inc., written submission to the Commission, Apr. 13, 2001.

## Brief discussion of affected U.S. industries, workers, and consumers

The affected segments of the U.S. textile and apparel industries include producers of yarns, fabrics, and apparel. According to the American Yarn Spinners Association (AYSA), Gastonia, NC, and the American Textiles Manufacturers Institute (ATMI), Washington, DC, there are at least five domestic producers of single rayon yarns using imported solution-dyed fibers: Richmond Yarns, Inc., Rockingham, NC; Carolina Mills, Maiden, NC; Cavalier Specialty Yarn Co., USA, Gastonia, NC; Four Leaf Textiles LLC, Shelby, NC; and Belding Hausman, Inc., Lincolnton, NC. All of these firms state that they have the equipment and the capability to accept orders of any size for the subject yarns, with production lead times similar to those required for the imported material.<sup>8</sup> The AYSA states that there is ample domestic spinning capacity to produce yarns of almost any cotton fiber number, and that the subject yarns are produced in the United States in commercial quantities and are produced by several of their members.

The petitioner, Fabritex Inc., states that the subject yarns are not available from U.S. producers in a timely manner and it is the unavailability of such yarns that threatens to undermine Fabritex's domestic production of fabrics.<sup>9</sup> The petitioner states that the domestic spinners are unable to meet its needs. The petitioner states that the domestic spinners cannot ensure adequate delivery of orders, noting that, in one instance, a domestic spinner was not used because of unacceptable delivery dates and that another domestic spinner could not be used because of contamination issues.<sup>10</sup> Fabritex explains that the domestic yarn spinners, which must import the solution-dyed fibers, are likely to lose time in the production process of the spun yarn as they must be concerned with the contamination of the natural fibers they spin into yarn with solution-dyed fibers.<sup>11</sup> To avoid this contamination, the domestic spinners must clean spindle rooms or maintain separate spindle capacity. Fabritex states that the domestic yarn spinners would likely not keep inventories of the imported solution dyed fibers in colors other than basic colors (e.g., black), because the subject yarns are used for fashion fabrics, and, therefore, it is not practical or economical to keep fiber inventory on hand.

According to the petitioner, there are two other domestic producers of fabrics similar to those made by Fabritex. This information could not be confirmed, because one of the firms, \*\*\*.<sup>12</sup>

Information on U.S. companies that produce apparel from the subject yarns is not readily available, partly because of the range of apparel articles involved and partly because imports are likely to account for most of the domestic market for such apparel articles. \*\*\*.<sup>13</sup>

Apparel industry sources emphasized the importance of being able to source the knitted fabrics in the quality and colors they need to complete their fashion line in a timely and reliable manner.<sup>14</sup> \*\*\*.<sup>15</sup>

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<sup>8</sup> Jim Conner, Executive Vice President, AYSA, written submissions to CITA and telephone interviews by Commission staff, Mar. 20-29, 2001; Carlos Moore, Executive Vice President, ATMI, written submission to CITA, Mar. 29, 2001.

<sup>9</sup> Brenda A. Jacobs and Leigh Fraiser, Powell, Goldstein, Frazer & Murphy LLP, Washington, DC, on behalf of Fabritex Inc., written submission to the Commission, Apr. 13, 2001, p. 2.

<sup>10</sup> Brenda Jacobs, Powell, Goldstein, Frazer & Murphy, on behalf of Fabritex, written submission to CITA, Apr. 3, 2001, pp 2-4.

<sup>11</sup> Brenda A. Jacobs and Leigh Fraiser, on behalf of Fabritex, written submission to the Commission, Apr. 13, 2001, p. 6.

<sup>12</sup> \*\*\*.

<sup>13</sup> \*\*\*.

<sup>14</sup> Frank Kelly, Liz Claiborne, North Edison, NJ, telephone interview by Commission staff, Mar. 22, 2001, and Ron Shulman, The Limited, Inc., Columbus, OH, written submission to CITA, Apr. 4, 2001.

<sup>15</sup> \*\*\*.

## Views of interested parties

The only written statement submitted to the Commission was filed on behalf of Fabritex, the petitioner, which states that the imported rayon yarn is not comparable to any yarn made domestically.<sup>16</sup> According to Fabritex, the CBTPA is causing a major shift in the production of apparel in the United States and the Caribbean region. In 1999, Fabritex believes that virtually all of the fabric it sold was cut to shape in the United States and that about 75 percent of those pieces were assembled in the United States. The rest was shipped to Caribbean Basin countries for assembly, under "807" programs. Today, with the implementation of the CBTPA and its "809" provision, Fabritex believes that less than 50 percent of its fabric is cut in the United States. Fabritex said that its customers now want the fabric shipped directly to CBTPA countries, while previously Fabritex shipped to domestic facilities. Fabritex states that its inability to supply fabrics that qualify for CBTPA benefits means that its apparel customers will stop doing business with Fabritex. According to Fabritex, \*\*\* worth of orders -- the level of business done by Fabritex in 2000 -- will be lost if Fabritex cannot supply CBTPA qualifying fabrics.

## Probable economic effect advice<sup>17</sup>

The Commission's analysis shows that granting duty-free and quota-free treatment to knitted apparel made in eligible CBTPA beneficiary countries from the subject rayon yarns is expected to have little adverse effect on U.S. producers of the subject yarns and their workers. It is uncertain whether U.S. yarn spinners, which make (spin) the subject yarns from imported solution-dyed fibers, are able to supply the yarns in the required color blends and delivery times that are competitive with what the domestic knitted fabric producer which imports the yarn can provide. It appears that although ample domestic capacity exists to produce the subject yarns, issues such as achieving acceptable quality, color blends, and delivery times exist to the extent that no domestic orders for yarn have been placed.

The proposed preferential treatment is expected to benefit U.S. producers of knitted fabrics made from the subject yarns, and their workers, as a result of increased demand for the U.S. fabrics. It is believed that the expected increased demand for the knitted fabrics would not displace demand for other types of fabrics, because the knitted fabrics are considered to be specialty fabrics used in higher-end coordinated fashions. The finished apparel is very price competitive, and lowering the price on such apparel would likely result in increased sales and corresponding demand for the knitted fabrics.

The proposed preferential treatment is also expected to benefit U.S. and other apparel firms making garments in eligible CBTPA beneficiary countries from non-U.S. yarns. The expected increase in imports of such apparel from the CBTPA countries would mostly displace imports of similar apparel entering free of duty from Mexico under the North American Free-Trade Agreement and dutiable imports from Asian countries. However, the proposed preferential treatment is expected to have a slight adverse effect on any U.S. firms making apparel articles domestically and on their workers; it also could spur U.S. apparel firms to move more assembly operations to the CBTPA countries.

U.S. consumers of apparel made from the subject yarns would benefit from the proposed preferential treatment because importers are likely to pass on some of the duty savings to retail consumers in today's highly competitive retail apparel market. In addition, consumers may benefit from having access to a wider range of apparel articles made from the subject yarns.

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<sup>16</sup> Brenda A. Jacobs and Leigh Fraiser, on behalf of Fabritex, written submission to the Commission, Apr. 13, 2001.

<sup>17</sup> The advice below is based on information currently available to the Commission.